

Message Text

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ACTION EA-12

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E.O. 11652: N/A
TAGS: EMIN, EINV, ID
SUBJECT: LOW WORLD NICKEL PRICES IMPACT ON INDONESIA

1. SUMMARY: LOW WORLD NICKEL PRICES, ALONG WITH OTHER FACTORS, HAVE CAUSED THE U.S. STEEL-LED CONSORTIUM, P.T. PACIFIC NICKEL INDONESIA (PNI), TO POSTPONE TO 1979 DECISION ON THE START-UP OF ITS BILLION DOLLAR GAG ISLAND PROJECT. IN A SEPARATE, BUT RELATED DEVELOPMENT, INTERNATIONAL NICKEL OF INDONESIA (INCO) HAS ANNOUNCED THAT PRODUCTION IN 1977 FROM THE COMPLETED FIRST PHASE OF ITS 840 MILLION DOLLAR PROJECT WILL BE BELOW PLANNED CAPACITY (16,000 TONS/ANNUM), BUT THAT INCO IS PROCEEDING WITH CONSTRUCTION OF THE SECOND PHASE OF THE PROJECT WHICH WILL BRING PRODUCTION UP TO 45,000 TONS/ANNUM. END SUMMARY.

2. A MISLEADING NEWS STORY RECENTLY APPEARED IN THE INDONESIA PRESS TO THE EFFECT THAT P.T. PACIFIC NICKEL INDONESIA (PNI) IS CONTINUING ITS PLAN TO DEVELOP A BILLION DOLLAR NICKEL COMPLEX ON GAG ISLAND, AND THAT THE PROJECT WILL BE COMPLETED IN 1983. IN FACT, WHAT HAD OCCURRED IS THAT THE
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CONSORTIUM PARTNERS IN PNI, WHO WERE SUPPOSED TO MAKE A FINAL DECISION ON WHETHER OR NOT TO START UP THE PROJECT THIS MONTH, APPLIED FOR AND RECEIVED THE GOI'S AGREEMENT TO DELAY THEIR DECISION FOR EIGHTEEN MONTHS UNTIL 1979.

3. PNI HAS A LONG AND CHECKERED HISTORY, ITS MOST RECENT SETBACKS INVOLVING THE WITHDRAWAL OF NEWMOUNT MINING AND

SHERRIT GORDON MINES FROM THE CONSORTIUM. MORE RECENTLY, AMOCO MINERALS AGREED IN PRINCIPLE TO JOIN THE ORIGINAL EQUITY INVESTORS, U.S. STEEL AND HOOGOVENS, AND THE GOI ALSO AGREED TO BECOME A 20 PERCENT EQUITY PARTNER. THESE FOUR WOULD LIKE TO ATTRACT A FIFTY EQUITY PARTNER, BUT ACCORDING TO PNI'S LOCAL MANAGER THIS WAS NOT THE PRINCIPAL REASON FOR THE DECISION TO REQUEST AN EXTENSION OF EIGHTEEN MONTHS; THE MOST IMPORTANT FACTOR IS THE LOW WORLD NICKEL PRICE.

4. U.S. STEEL CURRENTLY BELIEVES THAT WORLD NICKEL PRICES IN 1983, WHEN THE PROJECT WOULD BE READY TO BEGIN PRODUCTION, WILL BE HIGH ENOUGH TO JUSTIFY THIS BILLION DOLLAR PROJECT. PNI'S LOCAL MANAGER SAID THAT GOI OFFICIALS, WHO FOR POLITICAL REASONS WOULD HAVE LIKED TO SEE THE PROJECT START UP NOW, WERE QUITE UNDERSTANDING OF THE PROBLEMS, AND PRESENTED NO OBJECTIONS TO PNI'S REQUEST FOR AN EXTENSION. DURING THIS EIGHTEEN-MONTH PERIOD PNI WILL UNDERTAKE A NEW FEASIBILITY STUDY.

5. IN A SEPARATE DEVELOPMENT P.T. INTERNATIONAL NICKEL INDONESIA (INCO) HAS ANNOUNCED THAT PRODUCTION FROM THE FIRST PHASE OF ITS 840 MILLION DOLLAR PROJECT, WHICH WAS COMPLETED IN APRIL OF THIS YEAR, WILL BE LOWER THAN ORIGINALLY PLANNED. INCO BLAMED THIS ON THE TECHNICAL PROBLEMS WHICH HAVE PLAGUED THE START-UP OF THIS FACILITY.

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THE INDONESIAN PRESS ALSO MISREPORTED THIS STORY STATING QUOTE INCO INDONESIA WILL PROBABLY DELAY ITS SECOND PHASE PLAN TO INCREASE THE ANNUAL NICKEL-MATTE PRODUCTION TO 45,000 TONS END QUOTE. INCO HAS STATED FLATLY THAT IT IS NOT DELAYING THE CONSTRUCTION OF THE SECOND PHASE OF ITS FACILITY WHICH IS DUE FOR COMPLETION IN THE FIRST HALF OF 1978, ALTHOUGH SOME INDEPENDENT OBSERVERS HAVE SPECULATED THAT, IF WORLD NICKEL PRICES REMAIN LOW, INCO MIGHT DECIDE NOT TO PUT THE COMPLETED FACILITY INTO FULL PRODUCTION. IT IS, HOWEVER, OUR UNDERSTANDING THAT THE FACILITY WILL HAVE LOW OPERATING COSTS, AND IT WOULD SEEM THAT INCO MIGHT RATHER CHOOSE TO CLOSE DOWN A MINE WITH HIGHER OPERATING COSTS RATHER THAN DELAY THE START-UP OF PRODUCTION AT ITS INDONESIAN FACILITY. THE FIRST PHASE OF THE PROJECT HAS AN ANNUAL CAPACITY OF 16,000 TONS OF NICKEL IN NICKEL MATTE, AND THE COMPLETED PROJECT WILL HAVE A CAPACITY OF 45,000 TONS OF NICKEL.

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